

CITY OF ALGONA, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2014

**T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants**

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CITY OF ALGONA, IOWA

OFFICIALS

Lynn Kueck	Mayor	December 2017
Chad Besch	Council Member	December 2015
Sara Curtis	Council Member	December 2015
Josh Aanonson	Council Member	December 2017
Harley Kohlhaas	Council Member	December 2017
Kim Weaver	Council Member	December 2017
Paige Hollinger	Council Member	December 2015
Keri Navratil	City Administrator	Indefinite
Rexann McEnroe	Clerk	Indefinite
Paul Doster	Attorney	Indefinite



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Algona, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. Generally Accepted Auditing Standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis for Adverse Opinion on the City's Component Unit

The City has not included financial data from Algona Municipal Utilities, a component unit of the City of Algona by definition, in the City's financial statements. Accounting principles generally accepted in the United States of America require the financial data to be presented as a discretely presented component unit in the Cash Basis Statement of Activities and Net Position. The amount by which this departure would affect the overall cash balance, cash receipts and disbursements of the City as of and for the year ended June 30, 2014 has not been determined.

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The City has elected to omit all required disclosures related to the defined benefit police pension plan, described in Note 4 to the financial statements. The cash receipts and disbursements method of accounting requires that certain statistical data and liabilities related to the defined benefit pension plan be calculated and disclosed in the notes to the financial statements. This omission is related to the Police Pension Fund, part of the aggregate remaining fund information for the City of Algona.

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on the City’s Component Unit” paragraph, the financial statements referred to above do not present fairly the cash balance of Algona Municipal Utilities, a component unit of the City of Algona as of June 30, 2014, or the cash receipts and disbursements thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly in all material respects the aggregate remaining fund information of the City of Algona, as of and for the year ended June 30, 2014 in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Algona as of June 30, 2014, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algona’s basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein). All of financial statements during those years were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

The other information, Management's Discussion and Analysis, the budgetary comparison information, and the schedule of financial information on pages 5-11, 26-27, and pages 33-35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2015 on our consideration of the City of Algona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Algona's internal control over financial reporting and compliance.

T.P. Anderson & Company, P.C.

January 25, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Algona, Iowa (the City) provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City of Algona's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 9%, or approximately \$541,000, from fiscal 2013 to fiscal 2014. The increase in receipts was the result of grant proceeds received in fiscal year 2014 for the airport improvement project.
- Disbursements in the City's governmental activities decreased approximately \$11,000 in fiscal 2014 from fiscal 2013. Capital project disbursements decreased approximately \$562,000. Offsetting this large decrease were increases in public works disbursements of \$382,000 and culture and recreation disbursements of \$338,000 due to new projects beginning during the year.
- The City's total cash basis net position decreased \$25,000 from June 30, 2013 to June 30, 2014. Of this amount, the assets of the governmental activities increased approximately \$365,000 and the assets of the business type activities decreased by approximately \$390,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year; it also provides detailed property tax information.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of the federal program that benefited the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the

United States. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities include the sanitary sewer system, the storm sewer system, the ambulance service, and the housing program fund. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the Sewer, Storm Sewer, Ambulance, and Housing Funds.

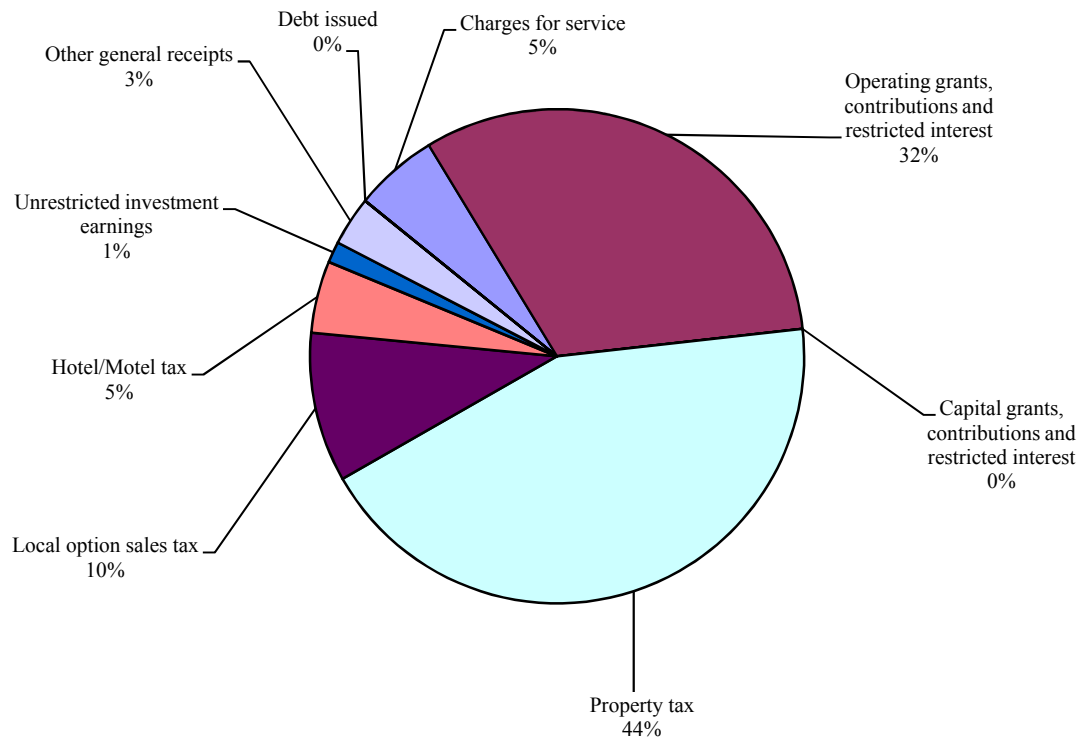
The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

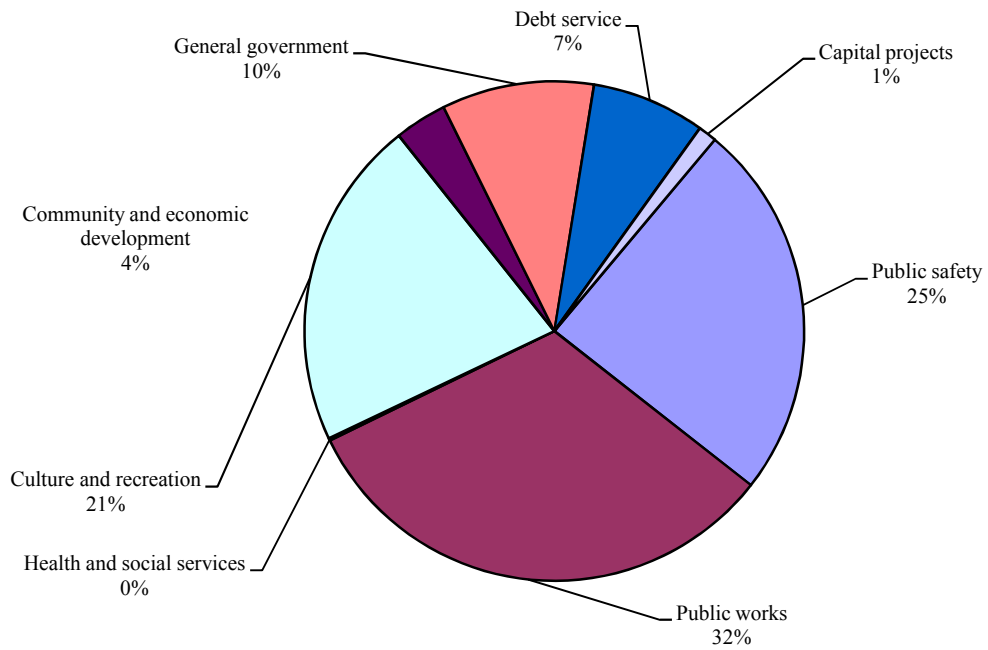
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$4.7 million to \$5.1 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 372	\$ 371
Operating grants, contributions and restricted interest	697	896
Capital grants, contributions and restricted interest	918	-
General receipts:		
Property tax	2,925	2,909
Tax increment financing	32	43
Local option sales tax	665	690
Hotel/motel tax	320	252
Grants and contributions not restricted to specific purposes	554	508
Unrestricted interest on investment	5	8
Other general receipts	308	577
Total receipts	<u>6,796</u>	<u>6,255</u>
Disbursements:		
Public safety	1,631	1,720
Public works	2,147	1,765
Health and social services	10	10
Culture and recreation	1,426	1,088
Community and economic development	226	271
General government	657	662
Debt service	491	521
Capital projects	80	642
Total disbursements	<u>6,668</u>	<u>6,679</u>
Change in cash basis net position before transfers	128	(424)
Transfers, net	<u>237</u>	<u>206</u>
Change in cash basis net position	365	(218)
Cash basis net position beginning of year	<u>4,700</u>	<u>4,918</u>
Cash basis net position end of year	<u>\$ 5,065</u>	<u>\$ 4,700</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 9%, or approximately \$541,000. The total cost of all programs and services decreased by approximately \$11,000 or 2%, with no new programs added this year. The City did, however, complete a number of large projects in fiscal year 2014 such as the airport improvement project, traffic signal updates and the highway 18 sewer extension project.

The cost of all governmental activities this year was approximately \$6.67 million compared to \$6.68 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on page 11, the amount taxpayers ultimately financed for these activities was only \$4.7 million because some of the cost was paid by those directly benefited from the programs (\$371,772) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$1,614,797). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$3.9 million in taxes (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business-Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 843	838
Storm Sewer	145	128
Ambulance	518	571
Housing	35	33
General receipts:		
Unrestricted interest on investments	2	1
Intergovernmental (sewer)	154	-
Total receipts	<u>1,697</u>	<u>1,571</u>
Disbursements:		
Sewer	1,163	853
Storm Sewer	20	177
Ambulance	642	526
Housing	25	21
Total disbursements and transfers	<u>1,850</u>	<u>1,577</u>
Change in cash basis net position, before transfers	(153)	(6)
Transfers, net	<u>(237)</u>	<u>(206)</u>
Change in cash basis net position	(390)	(212)
Cash basis net position beginning of year	<u>1,379</u>	<u>1,591</u>
Cash basis net position end of year	<u>\$ 989</u>	<u>1,379</u>

Total business type activities receipts increased in fiscal year 2014 to approximately \$1.7 million from approximately \$1.6 million last year. The increase is primarily due to the restricted contributions received during the year of approximately \$154,000 for the highway 18 sewer extension project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Algona completed the year, its governmental funds reported a combined fund balance of \$5,065,068, an increase of \$364,656 from last year's total of \$4,700,412. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$38,000 to \$2,696,000, due to planned expenditures that were budgeted, but ended up not being necessary.
- The Local Option Sales Tax Revenue Fund (LOST) cash balance increased from \$951,830 to \$1,117,346 during the fiscal year. The increase of \$166,000 was due to sales tax collections exceeding projections.
- The Road Use Tax Fund increased its cash balance in 2014 by approximately \$227,000. The increase is due to the regular operations of the fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$361,000 to \$297,000, due primarily to the capital expenditures for the City's wastewater treatment facilities.
- The Ambulance Fund had a decrease in fund balance of \$120,000, which included \$157,000 in capital expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 19, 2014 and resulted in a decrease in operating disbursements in several budgeted areas, most significantly in capital projects and public safety budget areas. The amendment also increased budgeted cash receipts from areas such as other city taxes, intergovernmental and property and miscellaneous. Offsetting the budgeted increase in receipts was a large decrease in other financing sources. The City did not exceed budgeted amounts, as amended, for the fiscal year ended June 30, 2014.

EXCLUDED COMPONENT UNIT

As discussed in Note 1, the financial statements do not include the financial data for Algona Municipal Utilities, a legally separate entity which accounting standards generally accepted in the United States of America require to be reported as a discretely presented component unit. Algona Municipal Utilities utilizes a different basis of accounting than that of the City and a different fiscal year and therefore inclusion of their financial data is not incorporated in this report.

DEBT ADMINISTRATION

At June 30, 2014, the City had approximately \$3.6 million in bonds and other long-term debt outstanding, compared to approximately \$4.0 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
General obligation bonds	\$ 2,047	\$ 2,388
Revenue notes	1,592	1,661
Total	<u>\$ 3,639</u>	<u>\$ 4,049</u>

Debt decreased as a result of paying down city debts as scheduled.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,047,437 is significantly below its constitutional debt limit of \$15.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2015 budget the elected and appointed officials of Algona examined economic conditions to help determine estimated revenues and expenditures. The current economy in Algona has remained steady with no layoffs or shutdowns that have plagued other communities around the country.

Unemployment for Kossuth County decreased from one year ago. The current rate is 3% versus 2.8% in 2013. The county average is well below the state average, which is 4.5%. During the year revenues tied to the economy and remained steady. Local option sales tax receipts exceeded estimates. Additionally, current changes in Iowa Code on utility franchise fees have assured that these revenues will remain a consistent revenue stream for the City of Algona.

Budget projections for fiscal year 2015/16 have not yet been completed. Revenues are expected to remain steady despite the commercial and industrial property tax rollback, multi-residential rollback will have little effect during the next fiscal year. The City does expect a shortfall in multi-residential property tax due to the rollback for fiscal year 2016/2017. Taxable valuations have risen slightly, by approximately 2%. Road Use Tax receipts are expected to remain the same due to gas tax revenues charged by the State of Iowa. Capital projects for streets and roads will receive subsidies from the City's Local Option Sales Tax Fund.

It is expected that the property tax levy will increase slightly in fiscal year 2016/2017 due to a purchase of a new fire truck. However, the City is planning two major capital projects, to replace the current city hall and to remodel the existing library. The full effect on the levy is not yet known, but will increase the rate beyond its current level.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Algona's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rexann McEnroe, City Clerk, 112 West Call Street, Algona, Iowa 50511.

Basic Financial Statements

CITY OF ALGONA, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,630,927	-	135,847	-
Public works	2,147,358	-	555,187	917,309
Health and social services	9,837	-	-	-
Culture and recreation	1,425,495	371,772	6,454	-
Community and economic development	226,421	-	-	-
General government	657,269	-	-	-
Debt service	490,617	-	-	-
Capital projects	79,693	-	-	-
Total government activities	6,667,617	371,772	697,488	917,309
Business type activities:				
Sewer	1,162,615	842,767	-	150,595
Storm Sewer	20,476	145,326	-	-
Ambulance	641,964	517,860	3,400	-
Housing	24,505	34,692	-	-
Total business type activities	1,849,560	1,540,645	3,400	150,595
Total	\$ 8,517,177	1,912,417	700,888	1,067,904
General Receipts				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel and franchise tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash beginning of year				
Cash end of year				
Cash Basis Net Position				
Restricted				
Nonexpendable:				
Cemetery perpetual care				
Library endowment				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,495,080)	-	(1,495,080)
(674,862)	-	(674,862)
(9,837)	-	(9,837)
(1,047,269)	-	(1,047,269)
(226,421)	-	(226,421)
(657,269)	-	(657,269)
(490,617)	-	(490,617)
(79,693)	-	(79,693)
(4,681,048)	-	(4,681,048)
-	(169,253)	(169,253)
-	124,850	124,850
-	(120,704)	(120,704)
-	10,187	10,187
-	(154,920)	(154,920)
(4,681,048)	(154,920)	(4,835,968)
2,567,419	-	2,567,419
32,418	-	32,418
357,608	-	357,608
664,526	-	664,526
319,979	-	319,979
554,487	-	554,487
5,151	1,490	6,641
307,573	-	307,573
236,543	(236,543)	-
5,045,704	(235,053)	4,810,651
364,656	(389,973)	(25,317)
4,700,412	1,378,895	6,079,307
\$ 5,065,068	988,922	6,053,990
\$ 53,350	-	53,350
140,000	-	140,000
737,923	-	737,923
76,464	-	76,464
1,459,026	-	1,459,026
2,598,305	988,922	3,587,227
\$ 5,065,068	988,922	6,053,990

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	General	Road Use Tax	Local Option Sales Tax	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 1,875,525	-	-	1,049,502	2,925,027
Tax increment financing	-	-	-	32,418	32,418
Other city tax	319,979	-	664,526	-	984,505
Licenses and permits	38,575	-	-	-	38,575
Use of money and property	89,361	-	857	3,570	93,788
Intergovernmental	1,103,649	555,187	-	510,448	2,169,284
Charges for service	371,772	-	-	-	371,772
Special assessments	51,949	-	-	-	51,949
Miscellaneous	126,009	-	-	-	126,009
	<u>3,976,819</u>	<u>555,187</u>	<u>665,383</u>	<u>1,595,938</u>	<u>6,793,327</u>
Disbursements:					
Public safety	1,600,666	-	-	30,261	1,630,927
Public works	1,304,002	327,961	-	515,395	2,147,358
Health and social services	9,837	-	-	-	9,837
Culture and recreation	1,425,495	-	-	-	1,425,495
Community and economic development	189,759	-	-	36,662	226,421
General government	657,269	-	-	-	657,269
Debt service	-	-	-	490,617	490,617
Capital projects	-	-	-	79,693	79,693
	<u>5,187,028</u>	<u>327,961</u>	<u>-</u>	<u>1,152,628</u>	<u>6,667,617</u>
Excess (deficiency) of receipts over (under) disbursements	(1,210,209)	227,226	665,383	443,310	125,710
Other financing sources (uses):					
Sale of Assets	2,403	-	-	-	2,403
Operating transfers in	1,320,270	-	74,250	167,751	1,562,271
Operating transfers out	(74,869)	-	(574,117)	(676,742)	(1,325,728)
	<u>1,247,804</u>	<u>-</u>	<u>(499,867)</u>	<u>(508,991)</u>	<u>238,946</u>
Net change in cash balances	37,595	227,226	165,516	(65,681)	364,656
Balance beginning of year	<u>2,658,140</u>	<u>510,697</u>	<u>951,830</u>	<u>579,745</u>	<u>4,700,412</u>
Balance end of year	<u>\$ 2,695,735</u>	<u>737,923</u>	<u>1,117,346</u>	<u>514,064</u>	<u>5,065,068</u>
Cash basis fund balance					
Nonspendable	\$ -	-	-	193,350	193,350
Restricted for:					
Debt service	-	-	-	76,464	76,464
Streets	-	737,923	-	-	737,923
Capital projects	-	-	-	113,421	113,421
Other purposes	89,546	-	1,117,346	138,713	1,345,605
Committed	526,760	-	-	-	526,760
Assigned	142,326	-	-	-	142,326
Unassigned	<u>1,937,103</u>	<u>-</u>	<u>-</u>	<u>(7,884)</u>	<u>1,929,219</u>
Total cash basis fund balances	<u>\$ 2,695,735</u>	<u>737,923</u>	<u>1,117,346</u>	<u>514,064</u>	<u>5,065,068</u>

See notes to financial statements.

CITY OF ALGONA, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Sewer	Ambulance	Other Nonmajor Proprietary Funds	Total
Receipts				
Charges for service	\$ 842,767	517,860	180,018	1,540,645
Disbursements				
Total operating disbursements	604,722	484,960	44,981	1,134,663
	604,722	484,960	44,981	1,134,663
Excess (deficiency) of operating receipts over (under) operating disbursements	238,045	32,900	135,037	405,982
Non-operating receipts (disbursements):				
Intergovernmental	150,595	3,400	-	153,995
Interest on investments	681	607	202	1,490
Capital expenditures	(557,893)	(157,004)	-	(714,897)
Net non-operating receipts (disbursements)	(406,617)	(152,997)	202	(559,412)
Excess of receipts over disbursements	(168,572)	(120,097)	135,239	(153,430)
Other financing sources (uses):				
Operating transfers out	(192,293)	-	(44,250)	(236,543)
	(192,293)	-	(44,250)	(236,543)
Net change in cash balances	(360,865)	(120,097)	90,989	(389,973)
Balance beginning of year	657,817	579,935	141,143	1,378,895
Balance end of year	\$ 296,952	459,838	232,132	988,922
Cash Basis Fund Balances				
Unrestricted	\$ 296,952	459,838	232,132	988,922
	\$ 296,952	459,838	232,132	988,922

See notes to financial statements.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer, storm sewer, and ambulance services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Algona has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Excluded Component Unit

The financial statements do not include financial data for Algona Municipal Utilities, a legally separate entity which accounting principles generally accepted in the United States of America require to be reported as a discretely presented component unit.

Algona Municipal Utilities, which was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. Complete financial statements, for the year ended December 31, 2013, can be obtained from the Municipal Utilities administration office, P.O. Box 10, 104 West Call Street, Algona, IA 50511.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Kossuth County Emergency Management Commission, Kossuth County E911 Board, and the North Iowa Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

This Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax received from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax (LOST) Fund is utilized to account for the local option sales tax receipts and disbursements.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The City reports the following major proprietary funds:

The Ambulance Fund accounts for the operation and maintenance of the City's ambulance system.

The Sewer Fund accounts for operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the accounting principles generally accepted in the United States.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Committed – Amounts restricted to specific purposes when constraints placed on the use of resources are internally imposed in formal action by the City Council.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

F. Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through January 25, 2015, the date the financial statements were issued.

(2) Cash and Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at amortized cost of \$395,179, pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated. More than 6% of the City's total cash and investments at June 30, 2014 were invested with IPAIT.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for Algona's general obligation bonds and revenue bonds are as follows:

Year Ending June 30.	General Obligation Notes		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	345,487	24,968	72,000	51,740	417,487	76,708
2016	350,487	22,286	74,000	49,400	424,487	71,686
2017	360,487	18,888	76,000	46,995	436,487	65,883
2018	360,487	14,862	79,000	44,525	439,487	59,387
2019	360,490	10,312	81,000	41,958	441,490	52,270
2020-2024	270,000	7,762	448,000	168,383	718,000	176,145
2025-2029	-	-	527,000	90,898	527,000	90,898
2030-2031	-	-	235,000	11,305	235,000	11,305
	<u>\$ 2,047,438</u>	<u>\$ 99,078</u>	<u>\$ 1,592,000</u>	<u>\$ 505,204</u>	<u>\$ 3,639,438</u>	<u>\$ 604,282</u>

Revenue Notes

The City has pledged future sewer customer receipts net of specific operating disbursements to repay \$2,151,000 in revenue bonds issued in September 2010. Proceeds from the notes provided financing for the improvements to the wastewater treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2031. The total principal and interest remaining to be paid on the notes is \$2,097,203. For the current year, principal and interest paid and total customer net receipts were \$122,882 and \$238,045, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) The notes require the system generate net revenues sufficient to 110% of the current year principal and interest installment.

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 2,387,925	1,660,903	4,048,828
Increases	-	-	-
Decreases	340,487	68,903	409,390
Balance, end of year	<u>\$ 2,047,438</u>	<u>1,592,000</u>	<u>3,639,438</u>

Interest rates on the general obligation bonds range from 0.00 to 2.00%. Interest rates on the revenue bonds were 3.00%.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual salary and the City is required to contribute 8.93% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$175,175, \$167,619, and \$154,850 respectively, equal to the required contributions for each year.

The City maintains a pension plan for police personnel hired prior to March 1, 1967 and accounts for the pension in the Police Pension Fund. The plan is financed by property taxes levied by the City. The plan covers two retired individuals and has been closed to new participants since March 1, 1967. For the year ended June 30, 2014, the City contributed \$15,152 to the plan and the participants contributed \$-0- to the plan.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 42 active members and 1 inactive member in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are approximately \$340 for single coverage and approximately \$1,043 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$354,846 and plan members eligible for benefits contributed approximately \$57,738 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until they are used or paid.

Certain unused sick leave, while not payable to a City employee upon retirement, may be credited to a "benefit account". Amounts credited to the "benefit account" are based on an employee's pay rate, their accumulated sick leave hours, and their years of service. Funds deposited to these accounts may be used by a former employee for certain health care related expenses.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The City's approximate liability for earned vacation and unused accumulated sick leave at June 30, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 97,867
Sick Leave	401,860
Balance at June 30, 2013	<u>\$ 499,727</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

(7) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2014 is as follows:

Transfer In	Transfer From	Amount
General	Local Option Sales Tax	\$ 574,117
	Trust and Agency-Employee Benefits	676,742
	Enterprise-Sewer	<u>69,411</u>
		1,320,270
LOST	General	30,000
	Enterprise- Storm Sewer	<u>44,250</u>
		74,250
Debt Service	General	10,487
	Enterprise-Sewer	<u>122,882</u>
		133,369
Capital Projects	General	<u>34,343</u>
		34,343
Grants	General	<u>39</u>
		39
		<u>\$ 1,562,271</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Local Government Risk Pool

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability,

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 was \$195,374.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The airport manager carries coverage for airport manager liability and proof of this coverage is provided to the City. The City assumes liability for any deductibles, and claims in excess

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Algona. Property taxes become liens on property as of July 1, 2013 and are payable in September 2013 and March 2014 of the fiscal year. The valuation for the taxes were based on January 1, 2012 assessed property valuations, and was based on a certified budget from March of 2013.

(10) Deficit Fund Balance

The Grant Fund had a deficit balance of \$7,884 at June 30, 2014. The deficit fund balance in the Grant Fund was the result of the airport improvement project costs exceeding the grant dollars received. This deficit will be eliminated by future grant receipts.

(11) Committed and Assigned Fund Balance

The general fund included restricted funds of \$89,546, committed funds of \$526,760 and assigned funds of \$142,326 at June 30, 2014. The detail of these amounts is as follows:

<u>Restricted</u>	<u>Amount</u>
Economic development	\$ 46,548
Fire	34,779
Cemetery	8,219
Balance at June 30, 2013	<u>\$ 89,546</u>
<u>Committed</u>	<u>Amount</u>
TV Grant	\$ 130,090
Revolving Loan Fund	387,061
Sick Leave Conversion	9,609
Balance at June 30, 2014	<u>\$ 526,760</u>
<u>Assigned</u>	<u>Amount</u>
Drug Abuse Education	\$ 19,168
Self Insurance	60,219
Airport - FAA	10,125
Aquatic Center	52,814
Balance at June 30, 2013	<u>\$ 142,326</u>

(12) Contracts/Commitments

In 2012, the City agreed to contribute \$30,000 to the Motor Sports Museum over a period of five years. The amount remaining on this commitment is \$12,000 at June 30, 2014.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(13) Operating Leases

The City leases a copy machine under an operating lease agreement signed in August 2010 calling for 60 monthly payments of \$232. In October 2014, the City received a new copy machine and signed a new lease agreement for 60 monthly payments of \$232. The remaining balance owed on the old lease was forgiven. Future minimum lease payments due on this operating lease is as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2015	\$ 2,784
2016	2,784
2017	2,784
2018	2,784
2019	1,856
2020	928
Total	<u>\$ 13,920</u>

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

CITY OF ALGONA, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

OTHER INFORMATION

YEAR ENDED JUNE 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 2,925,027	-	2,925,027
Tax increment financing	32,418	-	32,418
Other city taxes	984,505	-	984,505
Licenses and permits	38,575	-	38,575
Use of money and property	93,788	1,490	95,278
Intergovernmental	2,169,284	153,995	2,323,279
Charges for service	371,772	1,540,645	1,912,417
Special assessments	51,949	-	51,949
Miscellaneous	126,009	-	126,009
	<u>6,793,327</u>	<u>1,696,130</u>	<u>8,489,457</u>
Disbursements:			
Program			
Public safety	1,630,927	-	1,630,927
Public works	2,147,358	-	2,147,358
Health and social services	9,837	-	9,837
Culture and recreation	1,425,495	-	1,425,495
Community and economic development	226,421	-	226,421
General government	657,269	-	657,269
Debt service	490,617	-	490,617
Capital projects	79,693	-	79,693
Business type activities	-	1,849,560	1,849,560
	<u>6,667,617</u>	<u>1,849,560</u>	<u>8,517,177</u>
Excess (deficiency) of receipts over disbursements	125,710	(153,430)	(27,720)
Other financing sources, net	<u>238,946</u>	<u>(236,543)</u>	<u>2,403</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	364,656	(389,973)	(25,317)
Balance beginning of year	<u>4,700,412</u>	<u>1,378,895</u>	<u>6,079,307</u>
Balance end of year	<u>\$ 5,065,068</u>	<u>988,922</u>	<u>6,053,990</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
2,886,110	2,886,110	38,917
31,847	31,847	571
777,496	991,224	(6,719)
27,880	29,380	9,195
89,807	100,395	(5,117)
2,047,587	2,342,812	(19,533)
1,702,294	1,742,064	170,353
15,055	18,797	33,152
176,751	353,445	(227,436)
7,754,827	8,496,074	(6,617)

1,890,906	1,731,861	100,934
2,317,246	2,546,184	398,826
9,840	9,840	3
1,631,686	1,526,590	101,095
229,713	269,813	43,392
853,329	695,590	38,321
515,509	515,509	24,892
742,473	207,965	128,272
1,956,591	2,019,747	170,187
10,147,293	9,523,099	1,005,922

(2,392,466)	(1,027,025)	999,305
700,000	-	2,403

(1,692,466)	(1,027,025)	1,001,708
4,813,019	10,892,325	(4,813,018)
3,120,553	9,865,300	(3,811,310)

CITY OF ALGONA, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2014

The budgetary comparison is presented as in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year, one budget amendment increased budgeted revenues by \$741,247 and decreased budgeted disbursements by \$624,194. The budget amendment is reflected in the final budgeted amounts. The City did not exceed the budget during the fiscal year ended June 30, 2014.

Supplementary Information

CITY OF ALGONA, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue				
	Employee Benefits	TIF	Library	Grow Algona Trees	Grants
Receipts:					
Property tax	\$ 676,742	-	-	-	-
Tax increment financing	-	32,418	-	-	-
Use of money and property	-	26	1,531	3	-
Intergovernmental	-	-	-	-	510,448
	<u>676,742</u>	<u>32,444</u>	<u>1,531</u>	<u>3</u>	<u>510,448</u>
Disbursements:					
Public safety	-	-	-	-	-
Public works	-	-	-	-	515,395
Culture and recreation	-	-	-	-	-
Community and economic development	-	36,662	-	-	-
Debt Service	-	-	-	-	-
Capital Projects	-	-	-	-	-
	<u>-</u>	<u>36,662</u>	<u>-</u>	<u>-</u>	<u>515,395</u>
Excess (deficiency) of receipts over (under) disbursements	676,742	(4,218)	1,531	3	(4,947)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	39
Operating transfers out	(676,742)	-	-	-	-
	<u>(676,742)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39</u>
Net change in cash balance	-	(4,218)	1,531	3	(4,908)
Balance beginning of year	-	8,226	51,216	507	(2,976)
Balance end of year	<u>\$ -</u>	<u>4,008</u>	<u>52,747</u>	<u>510</u>	<u>(7,884)</u>
Cash Basis Fund Balance					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Other purposes	-	4,008	52,747	510	-
Unassigned	-	-	-	-	(7,884)
	<u>\$ -</u>	<u>4,008</u>	<u>52,747</u>	<u>510</u>	<u>(7,884)</u>

See accompanying independent auditor's report.

Special Revenue			Permanent		
Police Pension	Capital Projects	Debt Service	Cemetery	Library	Total
15,152	-	357,608	-	-	1,049,502
-			-	-	32,418
125	199	186	1,500	-	3,570
-	-	-	-	-	510,448
15,277	199	357,794	1,500	-	1,595,938
30,261	-	-	-	-	30,261
-	-	-	-	-	515,395
-	-	-	-	-	-
-	-	-	-	-	36,662
-	-	490,617	-	-	490,617
-	79,693	-	-	-	79,693
30,261	79,693	490,617	-	-	1,152,628
(14,984)	(79,494)	(132,823)	1,500	-	443,310
-	34,343	133,369	-	-	167,751
-	-	-	-	-	(676,742)
-	34,343	133,369	-	-	(508,991)
(14,984)	(45,151)	546	1,500	-	(65,681)
96,432	158,572	75,918	51,850	140,000	579,745
81,448	113,421	76,464	53,350	140,000	514,064
-	-	-	53,350	140,000	193,350
-	-	76,464	-	-	76,464
-	113,421	-	-	-	113,421
81,448	-	-	-	-	138,713
-	-	-	-	-	(7,884)
81,448	113,421	76,464	53,350	140,000	514,064

CITY OF ALGONA, IOWA

Schedule 2

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Storm Sewer	Housing	Total
Receipts:			
Charges for service	145,326	34,692	180,018
	<u>145,326</u>	<u>34,692</u>	<u>180,018</u>
Disbursements:			
Operating	20,476	24,505	44,981
Total operating disbursements	<u>20,476</u>	<u>24,505</u>	<u>44,981</u>
Excess of receipts over disbursements	<u>124,850</u>	<u>10,187</u>	<u>135,037</u>
	124,850	10,187	135,037
Non-operating receipts (disbursements)			
Interest on investments	40	162	202
Capital expenditures	-	-	-
	<u>40</u>	<u>162</u>	<u>202</u>
Excess of receipts over disbursements	124,890	10,349	135,239
Other financing sources (uses):			
Operating transfers out	(44,250)	-	(44,250)
	<u>(44,250)</u>	<u>-</u>	<u>(44,250)</u>
Net change in cash balances	80,640	10,349	90,989
Balance beginning of year	<u>(25,892)</u>	<u>167,035</u>	<u>141,143</u>
Balance end of year	<u>54,748</u>	<u>177,384</u>	<u>232,132</u>
Cash Basis Fund Balance			
Unrestricted	<u>54,748</u>	<u>177,384</u>	<u>232,132</u>
	<u>54,748</u>	<u>177,384</u>	<u>232,132</u>

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA

Schedule 3

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds/notes:									
Capital Loan Notes 2012	May 27, 2012	0.40 - 2.00%	2,610,000	2,325,000	-	330,000	1,995,000	27,248	-
LED Street Lighting	June 30, 2012	0.00%	62,925	62,925	-	10,487	52,438	-	-
				<u>\$ 2,387,925</u>	<u>-</u>	<u>340,487</u>	<u>2,047,438</u>	<u>27,248</u>	<u>-</u>
Revenue bonds:									
Sewer revenue	October 13, 2010	3.00%	\$ 2,151,000	\$ 1,660,903	-	68,903	1,592,000	53,979	-
				<u>\$ 1,660,903</u>	<u>-</u>	<u>68,903</u>	<u>1,592,000</u>	<u>53,979</u>	<u>-</u>

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA

Schedule 4

BOND AND NOTE MATURITIES

JUNE 30, 2014

Year Ending June 30,	GO Capital Loan		LED AMU Loan		Total GO Notes
	Issued May 27, 2012		Issued June 30, 2012		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2015	0.80	\$ 335,000	0.00	\$ 10,487	\$ 345,487
2016	1.00	340,000	0.00	10,487	350,487
2017	1.15	350,000	0.00	10,487	360,487
2018	1.30	350,000	0.00	10,487	360,487
2019	1.50	350,000	0.00	10,490	360,490
2020	1.75	135,000	0.00	-	135,000
2021	2.00	135,000	0.00	-	135,000
		\$ 1,995,000		\$ 52,438	\$ 2,047,438

Year Ending June 30,	Sewer Revenue Note	
	Issued Oct 13, 2010	
	Interest Rates	Amount
2015	3.00	\$ 72,000
2016	3.00	74,000
2017	3.00	76,000
2018	3.00	79,000
2019	3.00	81,000
2020	3.00	84,000
2021	3.00	87,000
2022	3.00	90,000
2023	3.00	92,000
2024	3.00	95,000
2025	3.00	99,000
2026	3.00	102,000
2027	3.00	105,000
2028	3.00	109,000
2029	3.00	112,000
2030	3.00	116,000
2031	3.00	119,000
		<u>\$ 1,592,000</u>

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE TEN YEARS ENDED JUNE 30:

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts										
Property tax	\$ 2,925,027	2,908,697	2,829,126	2,811,560	2,539,420	2,427,831	2,348,778	2,345,875	2,333,853	2,220,318
Tax increment financing collections	32,418	43,960	70,701	57,154	97,021	165,357	76,675	78,557	56,343	49,579
Other city tax	984,505	942,239	799,088	888,095	796,892	831,293	845,597	802,527	710,103	692,992
Licenses and permits	38,575	38,544	33,571	27,437	32,830	23,795	37,173	35,972	29,319	30,038
Use of money and property	93,788	184,343	134,016	122,388	144,682	175,501	255,610	246,927	189,380	145,867
Intergovernmental	2,169,284	1,403,713	1,420,647	1,574,372	1,454,755	1,555,051	1,525,121	1,617,236	1,694,951	1,062,995
Charges for service	371,772	371,428	480,143	325,814	285,298	363,649	341,674	292,661	309,657	273,012
Special assessments	51,949	76,011	16,477	8,872	692	757	-	867	1,304	1,261
Miscellaneous	126,009	281,006	217,474	412,091	150,740	183,547	205,401	238,570	211,847	275,771
	<u>\$ 6,793,327</u>	<u>6,249,941</u>	<u>6,001,243</u>	<u>6,227,783</u>	<u>5,502,330</u>	<u>5,726,781</u>	<u>5,636,029</u>	<u>5,659,192</u>	<u>5,536,757</u>	<u>4,751,833</u>
Disbursements										
Operating:										
Public safety	\$ 1,630,927	1,719,808	1,435,578	1,476,767	1,278,908	1,296,767	1,202,407	1,193,898	1,117,298	1,114,164
Public works	2,147,358	1,764,657	1,909,509	1,967,196	1,390,527	1,488,279	1,158,560	2,115,829	1,350,070	953,509
Health and social services	9,837	9,937	9,837	9,836	9,835	9,922	8,513	8,536	8,715	8,777
Culture and recreation	1,425,495	1,088,260	1,246,870	1,229,391	2,284,343	1,237,609	1,161,790	1,101,488	1,238,448	1,071,059
Community and economic development	226,421	271,367	122,506	204,887	247,162	377,632	773,642	226,215	809,924	490,037
General government	657,269	661,605	698,826	665,255	784,199	680,519	564,402	501,743	471,960	442,872
Debt service	490,617	520,892	286,575	429,332	405,343	406,113	401,195	395,745	425,935	461,951
Capital projects	79,693	642,656	74,199	245,709	177,795	-	10,443	195,709	507,361	1,339,544
	<u>\$ 6,667,617</u>	<u>6,679,182</u>	<u>5,783,900</u>	<u>6,228,373</u>	<u>6,578,112</u>	<u>5,496,841</u>	<u>5,280,952</u>	<u>5,739,163</u>	<u>5,929,711</u>	<u>5,881,913</u>

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Grantor/Program	CFDA	Federal Expenditures
Direct:		
U.S. Department of Transportation:		
Airport Improvement Project	20.106	\$ 515,395
		<u>\$ 515,395</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample Cash City and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A- 133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2014

January 1, 2013 Valuations (taxes payable July 1, 2014 to June 30, 2015)		
	100% Actual Value	Taxable Value (with Rollback)
Residential	\$ 216,371,095	\$ 117,706,388
Commercial	73,573,289	69,597,671
Industrial	27,300,356	25,935,343
Railroad	1,464,600	1,391,370
Utilities	2,126,894	2,126,894
Gross valuation	320,836,234	216,757,666
Less military exemption	(664,868)	(664,868)
Net valuation	\$ 320,171,366	\$ 216,092,798
TIF increment (used to compute debt Service levies and constitutional debt limit)	1,052,027	1,052,027
Taxed separately		
Agricultural land	1,505,753	653,491
Agricultural buildings	-	-
Gas and electricity utility property	2,510,650	2,445,840

2013 Gross Taxable Valuation by Class of Property		
		Percent Total
Residential	\$ 117,706,388	53.70%
Commercial, Industrial, Utility*	100,105,748	45.67%
Railroad	1,391,370	.63%
Total gross taxable valuation	\$ 219,203,506	100.00%

* Includes gas and electric utility property, but excludes TIF increment, agricultural land, and agricultural buildings.

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2014

TREND OF VALUATIONS

Assessment Year	Payable Fiscal Year	100% Actual Valuation	Taxable Valuation (with Rollback)	TIF Increment
2001	2002-03	207,007,532	138,858,537	-0-
2002	2003-04	211,020,084	140,989,805	961,789
2003	2004-05	233,517,198	147,382,559	1,637,765
2004	2005-06	239,356,724	151,498,721	1,742,646
2005	2006-07	242,328,824	149,283,934	2,417,969
2006	2007-08	246,806,639	152,910,185	2,435,229
2007	2008-09	269,385,874	160,425,731	5,308,825
2008	2009-10	276,104,066	170,491,449	2,976,528
2009	2010-11	304,558,329	191,959,012	1,735,178
2010	2011-12	313,169,791	203,067,551	2,217,349
2011	2012-13	304,528,219	204,084,859	1,433,762
2012	2013-14	307,975,235	210,931,121	1,058,835
2013	2014-15	320,171,366	216,092,798	1,052,027

The 100% Actual Valuations, before rollback, include agricultural land and buildings, TIF increment and gas and electric valuation. The Taxable Valuations, with the rollback and after the reduction of military exemption includes gas and electric valuation and excludes agricultural land and buildings and TIF increment. Iowa cities certify operating levies against taxable value excluding TIF increment, and debt service levies are certified against taxable value including TIF increment.

LARGER TAXPAYERS

Taxpayer	Type of Property/Business	01/01/13 Taxable Valuation
Snap-On Tools	Industrial & Agricultural	7,085,771
Pioneer Hi-Bred Corn Co.	Industrial	5,679,591
Druggists Mutual Insurance Co.	Commercial	3,779,800
Hjelmeland Family, LP	Commercial	3,431,751
Sears, Roebuck and Co.	Commercial	2,737,064
Precision, Inc	Industrial & Commercial	2,447,948
Hormel & Co.	Industrial & Commercial	2,217,719
Flint Hills Resources, LP	Industrial	2,215,855
Evang Luth Good Samaritan Society	Residential	2,173,979
Algona Medical Clinic LLC	Commercial	1,975,143

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2014

DIRECT DEBT

General Obligation Debt

Date of Issue	Original Amount	Purpose	Principal Final Maturity	Outstanding as of 06/30/14
May 2012	2,610,000	Street Improvement/Refunding	Jun 2021	1,995,000
June 2012	62,925	LED Street Lighting	Jun 2019	52,438
Subtotal				2,047,438

Revenue Debt

The City has revenue debt outstanding payable solely from sewer revenues. This debt is not subject to the City's debt limit. The balance outstanding is as follows:

Date of Issue	Original Amount	Purpose	Security	Final Maturity	Principal Outstanding as of 06/30/14
Oct 2010	2,151,000	Sewer bond	Sewer revenue	Oct 2030	1,592,000

INDIRECT GENERAL OBLIGATION DEBT

	01/01/13 Taxable Valuation	Percent in City	General Obligation Debt	City's Proportionate Share
Kossuth County	1,191,594,286	15.56%	-	-
Algona Community School District	548,060,002	36.20%	-	-
Iowa Lakes Community College	1,107,293,867	3.88%	-	-
City share of total overlapping debt				-

DEBT RATIOS

	General Obligation Debt	Debt/Actual Market Value (\$216,092,798)	Debt / 5,560 Population
General Obligation Debt	2,047,438	.947%	368.24
City's share of overlapping debt	-	-0-%	-0-

TAX RATES

	FY 09-10 /\$1,000	FY 10-11 /\$1,000	FY 11-12 /\$1,000	FY 12-13 /\$1,000	FY 13-14 /\$1,000	FY 14-15 /\$1,000
Kossuth County	6.02397	5.82217	5.73605	5.26795	5.29693	5.29693
Agricultural Extension	.08259	.07224	.06956	.06583	.06294	.06110
Hospital	.32818	.33932	.33932	.33932	.33932	.33932
County Assessor	.31975	.36632	.48113	.32189	.32189	.32189
State of Iowa	.00350	.00340	.00320	.00330	.00330	.00330
Algona Comm School District	12.37567	12.38999	12.26228	11.76000	10.86363	10.84521
Area II Community College	.75850	.78134	.76886	.76795	1.05055	.65289
City of Algona	14.81426	14.44359	14.03743	14.39940	13.78325	13.78909
Total Tax Rate City Resident	33.60334	34.70642	34.21837	33.69783	32.92564	31.72181



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Algona, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 25, 2015. Our report expressed qualified, adverse and modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Algona's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Algona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Algona's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in 2014-001 in the Schedule of Findings and Questioned Costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items 2014-002 through 2014-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Algona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Algona's Responses to Findings

The City of Algona's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Algona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Algona during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

January 25, 2015



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Algona's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the Summary of Auditor's Results, Part 1 of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility of to express and opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

T.P. Anderson & Company, P.C.

January 25, 2015

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified, adverse and unmodified opinions were issued on the financial statements for the City of Algona.
- (b) Significant internal control deficiencies were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The City's major program for the Fiscal Year ended June 30, 2014 was CFDA# 20.106 Federal Aviation Administration- Airport Improvement Grant.
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) The City did not qualify as a low-risk audit.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

2014-001 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition- We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person. There is a lack of segregation of duties with respect to cash receipts and disbursements.

Cause – The City of Algona is not a large municipality; therefore their staff includes a small number of office employees.

Effect – The lack of a proper segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost-effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

2014-002 Condition – The City’s management does not have a formal process in place for determining compliance with the sewer revenue bond resolution provisions.

Criteria – An internal control system that is functioning properly should detect any non-compliance in a timely manner.

Cause – Regular month-end practices do not include calculating the different provisions outlined in the bond agreement resolution.

Effect – A significant deficiency in the City’s control system

Recommendation – Procedures should be developed to ensure that all provisions are calculated and monitored on a monthly basis.

Client Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

2014-003 Condition – The City does have a formal process of monitoring the thresholds to require a single audit to be performed for federal dollars spent.

Criteria – An internal control system that is functioning properly should detect any non-compliance in a timely manner.

Cause – Regular year-end practices do not include monitoring the federal dollars spent to determine if the City met the thresholds to require a single audit.

Effect – A significant deficiency in the City’s control system

Recommendation – Procedures should be developed to ensure that single audit thresholds are monitored to determine if a single audit is needed.

Client Response – We will consider the recommendation and take steps to address this issue.

Conclusion – Response accepted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non Compliance:

No matters were noted.

Control Deficiencies:

No material weaknesses in internal control over the major programs were noted.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-14 Certified Budget – Disbursements did not exceed the budget for the year ending June 30, 2014.
- IV-B-14 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-14 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- IV-D-14 Business Transactions – No business transactions between the City and its officials or employees were noted.
- IV-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-14 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- IV-H-14 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.
- IV-I-14 Unclaimed Property- Unclaimed property was not reported to the State Treasurer annually before November 1 as required by Chapter 556.1(12) of the Code of Iowa.

Recommendation- The City should develop a process to report all unclaimed property to the State Treasurer annually before the due date of November 1.

Response- We will develop a process as recommended.

Conclusion- Response accepted.